



Tecumseh, Michigan

FINANCIAL STATEMENTS

For The Year Ended June 30, 2008



REHMANN ROBSON

Certified Public Accountants

TECUMSEH PUBLIC SCHOOLS

For the Year Ended June 30, 2008

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REHMANN ROBSON

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INDEPENDENT AUDITORS' REPORT

November 12, 2008

Board of Education
Tecumseh Public Schools
Tecumseh, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **TECUMSEH PUBLIC SCHOOLS**, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Tecumseh Public Schools, as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tecumseh Public Schools' basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehmann Lohman".

MANAGEMENT'S DISCUSSION and ANALYSIS

This section of Tecumseh Public Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Tecumseh Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds – the General Fund and the Capital Projects Fund; and all other funds presented as nonmajor funds (Special Revenue and Debt Service). The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

Other supplemental Information

Reporting the School District as a Whole – District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – fund Financial Statements

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in the funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2008.

TABLE I	6/30/2008 Governmental Activities	6/30/2007 Governmental Activities
Assets		
Current and other assets	\$ 8,613,078	\$ 7,939,709
Capital assets - Net of accumulated depreciation	57,837,910	59,262,071
Total assets	66,450,988	67,201,780
Liabilities		
Accounts payable and accrued liabilities	6,075,917	5,763,001
Unearned revenue	72,143	84,341
Long-term debt:		
Due within one year	2,370,714	2,686,960
Due in more than one year	50,992,962	53,294,188
Total liabilities	59,511,736	61,828,490
Net Assets		
Invested in capital assets, net of related debt	5,713,604	4,873,733
Restricted for:		
Capital projects and other purposes	997,814	536,800
Unrestricted	227,834	(37,243)
Total net assets	\$ 6,939,252	\$ 5,373,290

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$6,939,252 at June 30, 2008. Capital assets, net of related debt totaling \$5,713,604 compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School district's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$227,834 was an unrestricted balance.

The \$227,834 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal year 2008.

TABLE 2		6/30/2008	6/30/2007
Revenue		Governmental	Governmental
		<u>Activities</u>	<u>Activities</u>
Program revenue:			
Charges for services		\$ 981,684	\$ 978,611
Grants and categories		2,830,161	2,355,642
General revenue:			
Property taxes		7,514,343	7,128,126
Unrestricted state aid		20,436,213	20,847,449
Other		161,966	190,220
Total revenue		<u>31,924,367</u>	<u>31,500,048</u>
Function/Program expenses			
Instruction		15,511,412	16,706,336
Support services		8,735,311	8,905,476
Community services		335,456	307,474
Athletics		608,434	632,594
Food service		943,870	923,589
Transfers to other districts		-	-
Interest on long-term debt		2,682,833	2,801,430
Unallocated depreciation		1,541,089	1,568,830
Total Expenses		<u>30,358,405</u>	<u>31,845,729</u>
Increase in Net Assets		<u>\$ 1,565,962</u>	<u>\$ (345,681)</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$30,358,405. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and categorical. We paid for the remaining “public benefit” portion of our governmental activities with \$7,514,343 in taxes, \$20,436,213 in State Foundation Allowance, and with our other revenues, \$161,966, such as interest and general entitlements.

The School District experienced an increase in net assets of \$1,565,962. The key reason for the change in net assets is the decrease in expenditures through cost containment measures adopted by the District.

As discussed above, the net cost shows the financial burden that was placed on the state and the School District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3,053,455 which is an increase of \$637,429 from last year's combined fund balance. The primary reason for the increase is through overall cost containment measures initiated in 2007-2008. In addition, the District delayed various capital projects that will be completed with a bond for energy projects. In the General Fund, our principal operating fund, the fund balance increased by \$86,404 to \$1,768,176 which is 7.2% of expenditures. Currently, the state wide average fund balance is approximately 8%.

- Our Special Revenue Funds showed an insignificant decrease of \$1,258 in fund balances with an ending combined balance of \$152,381. The general fund balanced pending deficits in both the Athletic Fund and the Community Services Fund.
- Combined, the Debt Service Funds showed an increase in fund balance of \$45,011. Millage rates will remain at 7.2000 mills until such time that all loans due the School Bond Loan Program are repaid. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.
- The Capital Projects Funds increased due to the Board of Education approval of Strategic Finance Plan 1.2 to transfer in from the General Fund \$250,000 for school improvements and \$400,000 for upcoming planned capital expenditures

General Fund Budgetary Highlights

Over the course of the year, the school District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased \$16,850 due to the collection of prior year property taxes.
- Budgeted expenditures decreased \$222,673 primarily due to initiating cost containment measures throughout the 2007-2008 fiscal year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008 the School District had \$69,817,783 invested in a broad range of capital assets, including land, buildings, furniture, and equipment.

	<u>2008</u>
Land	\$ 1,590,511
Buildings and improvements	68,808,647
Vehicles	292,290
Furniture and equipment	<u>833,774</u>
Total capital assets	71,525,222
Less accumulated depreciation	<u>13,687,312</u>
Net capital assets	<u><u>\$57,837,910</u></u>

Debt

At the end of this year, the School District had \$47,756,723 in bonds outstanding versus \$50,031,723 in the previous year – a change of \$2,275,000. Those bonds consisted of the following:

	<u>2000</u>	<u>1998 Durant</u>	<u>2005</u>
<u>General Obligation Bonds</u>	\$1,400,000	\$166,723	\$46,190,000

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$47,756,723 is significantly below the statutorily imposed limit.

Other obligations include employee-compensated absences and retirement incentives. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic factors and Next Year's Budgets and Rates

For the 2008/2009 school year the non-homestead millage will likely remain at 18.0000 mills. Levying the full amount on these properties is crucial, especially when the State foundation and categorical monies are constantly under scrutiny. This non-homestead millage was renewed by the District's voters on January 15, 2008 for three years and a Headlee rollback is not expected in the current economic climate.

One of the most important factors affecting the budget is our student count. Unfortunately, it is difficult for School District's to know exactly how many students will show up and be counted on those two crucial pupil count days (September and February) of each school year. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The State of Michigan has approved a State Aid Bill for next school year which establishes the foundation allowance per pupil. The District Foundation Allowance is \$7,316 for 2008-2009.

The 2008/2009 budget was adopted based on the blended student count (75% of September 2008 students and 25% of February 2008 students) or 3,200 (which is 120 students lower than 2007/2008) and \$7,316 student foundation allowance. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual District resources are not sufficient to fund original appropriations. The adopted budget and subsequent amendments must be posted on the District website, once board approved.

Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Approximately 80 percent of total General Fund revenues are from the foundation allowance.

The School District is mandated by Michigan State statute to contribute to the Michigan Public School Employees Retirement System (MPERS) at a rate established by the State of Michigan. The rate set for 2008/2009 was reduced to 16.54% of our annual covered payroll (2007/2008 it was 16.72%). Healthcare costs continue to challenge the School District's budget. For 2008/2009 healthcare costs will be nearly 3.0 million dollars. The District has changed healthcare providers and a number of employee groups are contributing toward the premium costs for their healthcare coverage.

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Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, 212 N. Ottawa Street, Tecumseh, Michigan 49286.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TECUMSEH PUBLIC SCHOOLS

Statement of Net Assets

June 30, 2008

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,068,039
Receivables	4,178,381
Prepaid items and other assets	366,658
Capital assets, net	<u>57,837,910</u>
Total assets	<u>66,450,988</u>
Liabilities	
Accounts payable and accrued liabilities	6,075,917
Unearned revenue	72,143
Long-term debt:	
Due within one year	2,700,052
Due in more than one year	<u>50,663,624</u>
Total liabilities	<u>59,511,736</u>
Net assets	
Invested in capital assets, net of related debt	5,713,604
Restricted for capital projects and other purposes	997,814
Unrestricted	<u>227,834</u>
Total net assets	<u><u>\$ 6,939,252</u></u>

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS

Statement of Activities For the Year Ended June 30, 2008

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 15,511,412	\$ 3,850	\$ 2,429,770	\$ (13,077,792)
Supporting services	8,735,311	-	63,440	(8,671,871)
Community service	335,456	156,002	-	(179,454)
Athletics	608,434	131,991	-	(476,443)
Food service	943,870	689,841	246,520	(7,509)
Interest on long-term debt	2,682,833	-	90,431	(2,592,402)
Unallocated depreciation	1,541,089	-	-	(1,541,089)
Total	<u>\$ 30,358,405</u>	<u>\$ 981,684</u>	<u>\$ 2,830,161</u>	<u>(26,546,560)</u>
General revenues:				
Property taxes				7,514,343
Unrestricted state aid				20,436,213
Grants and contributions not restricted to specific programs				47,874
Unrestricted investment earnings				<u>114,092</u>
Total general revenues				<u>28,112,522</u>
Change in net assets				1,565,962
Net assets, beginning of year				<u>5,373,290</u>
Net assets, end of year				<u>\$ 6,939,252</u>

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2008

<u>ASSETS</u>	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 2,731,982	\$ 845,433	\$ 490,624	\$ 4,068,039
Accounts receivable	76,071	-	2,047	78,118
Due from other governments	3,927,593	-	172,670	4,100,263
Inventory	-	-	7,669	7,669
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL ASSETS</u>	<u>\$ 6,735,646</u>	<u>\$ 845,433</u>	<u>\$ 673,010</u>	<u>\$ 8,254,089</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 481,263	\$ -	\$ 96,556	\$ 577,819
Salaries and retirement payable	2,534,855	-	12,592	2,547,447
Due to other governments	72,242	-	-	72,242
State aid note payable	1,764,260	-	-	1,764,260
Deferred revenue	69,850	-	169,016	238,866
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	4,922,470	-	278,164	5,200,634
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances				
Reserved for:				
Inventory	-		7,669	7,669
Unreserved:				
Undesignated	1,813,176		-	1,813,176
Undesignated, reported in nonmajor:				
Special revenue funds	-		144,712	144,712
Debt service funds	-		242,465	242,465
Capital project funds	-	845,433	-	845,433
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	1,813,176	845,433	394,846	3,053,455
	<hr/>	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 6,735,646</u>	<u>\$ 845,433</u>	<u>\$ 673,010</u>	<u>\$ 8,254,089</u>

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	\$ 3,053,455
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	71,525,222
Deduct: accumulated depreciation	(13,687,312)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add: deferred revenue for the Durant receivable from MDE	166,723
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: bonds payable	(52,532,306)
Add: unamortized bond issuance costs	358,989
Add: unamortized loss on refunding	2,483,668
Deduct: unamortized bond premium	(2,601,380)
Deduct: accrued interest on bonds payable	(1,114,149)
Deduct: compensated absences	(159,500)
Deduct: retirement incentives payable	(554,158)
Net assets of governmental activities	\$ <u>6,939,252</u>

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>	<u>Totals</u>
Revenue				
Local sources	\$ 4,155,878	\$ 10,032	\$ 5,652,449	\$ 9,818,359
State sources	21,649,636	-	39,606	21,689,242
Federal sources	238,088	-	206,914	445,002
	<u>26,043,602</u>	<u>10,032</u>	<u>5,898,969</u>	<u>31,952,603</u>
Total revenue				
Expenditures				
Current:				
Education:				
Instruction	15,829,648	-	-	15,829,648
Supporting services	8,669,100	-	-	8,669,100
Athletics	-	-	608,434	608,434
Food service	-	-	945,619	945,619
Community services	138,527	-	196,929	335,456
Capital outlay	-	200,276	-	200,276
Debt service:				
Principal repayment	-	-	2,275,000	2,275,000
Interest and fiscal charges	-	-	2,451,641	2,451,641
	<u>24,637,275</u>	<u>200,276</u>	<u>6,477,623</u>	<u>31,315,174</u>
Total expenditures				
Revenue over (under) expenditures	<u>1,406,327</u>	<u>(190,244)</u>	<u>(578,654)</u>	<u>637,429</u>
Other financing sources (uses)				
Transfers in	-	650,000	624,923	1,274,923
Transfers out	(1,274,923)	-	-	(1,274,923)
	<u>(1,274,923)</u>	<u>650,000</u>	<u>624,923</u>	<u>-</u>
Total other financing sources (uses)				
Change in fund balances	131,404	459,756	46,269	637,429
Fund balances, beginning of year	<u>1,681,772</u>	<u>385,677</u>	<u>348,577</u>	<u>2,416,026</u>
Fund balances, end of year	<u>\$ 1,813,176</u>	<u>\$ 845,433</u>	<u>\$ 394,846</u>	<u>\$ 3,053,455</u>

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$	637,429
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: Capital asset additions		116,928
Deduct: depreciation expense		(1,541,089)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		2,275,000
Deduct: proceeds from School Bond Loan Fund		-
Deduct: amortization of bond refunding loss		(112,894)
Add: amortization of bond premium		118,244
Deduct: amortization of bond issuance costs		(16,318)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds		(220,224)
Add: decrease in the accrual for compensated absences		16,748
Add: decrease in the accrual for retirement incentives		320,374

Change in net assets of governmental activities	\$	1,565,962
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The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Statement of Revenue, Expenditures and
Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources:				
Property taxes	\$ 2,913,346	\$ 2,780,034	\$ 2,833,122	\$ 53,088
ISD special education tax	476,868	1,041,699	1,041,699	-
Tuition	-	3,775	3,850	75
Earnings on investments and deposits	85,000	97,629	104,060	6,431
Other local revenues	216,600	203,945	173,147	(30,798)
Total revenue from local sources	<u>3,691,814</u>	<u>4,127,082</u>	<u>4,155,878</u>	<u>28,796</u>
State sources:				
State school aid - unrestricted	19,960,701	20,484,025	20,436,213	(47,812)
At risk	189,000	191,589	186,914	(4,675)
Special education	846,227	900,455	958,341	57,886
Durant settlement	28,236	28,236	28,236	-
Middle school math	-	37,508	37,508	-
Other state revenue	-	2,500	2,424	(76)
Total revenue from state sources	<u>21,024,164</u>	<u>21,644,313</u>	<u>21,649,636</u>	<u>5,323</u>
Federal sources	<u>210,690</u>	<u>255,357</u>	<u>238,088</u>	<u>(17,269)</u>
Total revenue	<u>24,926,668</u>	<u>26,026,752</u>	<u>26,043,602</u>	<u>16,850</u>
Expenditures				
Instruction:				
Basic Programs:				
Elementary	4,932,732	4,911,913	4,834,536	(77,377)
Middle/Junior High	4,011,223	4,106,437	4,061,513	(44,924)
High School	3,792,354	3,793,171	3,800,596	7,425
Added Needs:				
Special Education	2,686,012	2,786,687	2,689,277	(97,410)
At Risk	349,511	362,699	352,445	(10,254)
Adult Education	89,954	91,413	91,281	(132)
Total instruction	<u>15,861,786</u>	<u>16,052,320</u>	<u>15,829,648</u>	<u>(222,672)</u>

continued...

TECUMSEH PUBLIC SCHOOLS
Statement of Revenue, Expenditures and
Changes in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Supporting Services:				
Pupil services:				
Guidance services	\$ 585,508	\$ 611,910	\$ 613,144	\$ 1,234
Health services	120,000	91,690	87,058	(4,632)
Other pupil services	62,840	74,190	61,651	(12,539)
Instructional staff:				
Improvement of instruction	82,547	107,468	76,091	(31,377)
Library/media	276,629	281,936	279,127	(2,809)
Supervision and direction	91,782	73,539	69,296	(4,243)
Technology assisted instruction	47,588	48,840	49,310	470
General administration:				
Board of Education	411,910	573,936	563,711	(10,225)
Executive administration	279,535	308,244	296,951	(11,293)
School administration	1,364,228	1,464,549	1,426,890	(37,659)
Central services:				
Pupil accounting	500	149	-	(149)
Human resources	179,795	139,369	130,471	(8,898)
Technology	631,280	720,288	709,351	(10,937)
Business services	517,799	468,999	460,266	(8,733)
Operations and maintenance	2,630,237	2,866,117	2,772,793	(93,324)
Transportation	943,217	1,071,134	1,035,749	(35,385)
Other supporting services	93,136	37,267	37,241	(26)
Total supporting services	<u>8,318,531</u>	<u>8,939,625</u>	<u>8,669,100</u>	<u>(270,525)</u>
Community services	<u>125,085</u>	<u>125,363</u>	<u>138,527</u>	<u>13,164</u>
Transfers to other districts	<u>-</u>	<u>24,500</u>	<u>-</u>	<u>(24,500)</u>
Total expenditures	<u>24,305,402</u>	<u>25,141,808</u>	<u>24,637,275</u>	<u>(504,533)</u>
Revenue over expenditures	<u>621,266</u>	<u>884,944</u>	<u>1,406,327</u>	<u>521,383</u>
Other financing sources (uses)				
Transfers in	31,501	31,501	-	(31,501)
Transfers out	<u>(794,582)</u>	<u>(910,468)</u>	<u>(1,274,923)</u>	<u>(364,455)</u>
Total other financing sources (uses)	<u>(763,081)</u>	<u>(878,967)</u>	<u>(1,274,923)</u>	<u>(395,956)</u>
Change in fund balance	(141,815)	5,977	131,404	125,427
Fund balance, beginning of year	<u>1,681,772</u>	<u>1,681,772</u>	<u>1,681,772</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,539,957</u></u>	<u><u>\$ 1,687,749</u></u>	<u><u>\$ 1,813,176</u></u>	<u><u>\$ 125,427</u></u>

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS

Statement of Fiduciary Net Assets

All Fiduciary Funds

June 30, 2008

	Private Purpose Trust Funds	Agency Fund
	<hr/>	<hr/>
Assets		
Cash and cash equivalents	\$ 117,157	<u><u>\$ 188,586</u></u>
Liabilities		
Due to student groups and activities	<hr/> -	<u><u>\$ 188,586</u></u>
Net assets		
Unrestricted	<u><u>\$ 117,157</u></u>	

The accompanying notes are an integral part of these financial statements.

TECUMSEH PUBLIC SCHOOLS
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Funds
For the Year Ended June 30, 2008

Revenue

Local sources:

Contributions

\$ 1,000

Earnings on investments

3,412

Total revenue

4,412

Expenses

Scholarships

1,001

Change in net assets

3,411

Net assets, beginning of year

113,746

Net assets, end of year

\$ 117,157

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Tecumseh Public Schools (the "District") has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received and grant and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* is used to account for the financial resources to be used for the acquisition or construction of major capital facilities improvements.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *private purpose trust fund* accounts for contributions earmarked for scholarships available to qualifying students of the District.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

D. Assets, liabilities and equity

1. Cash and cash equivalents/investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding at June 30, 2008.

3. Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund and Food Service Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

4. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	45
Vehicles	5-10
Equipment	5-20

5. *Compensated absences*

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and 50 percent of sick leave are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

6. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

B. Excess of expenditures over appropriations

Budget to actual comparisons for the General Fund are presented in the fund financial statements at the legal level of budgetary control.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Statutory Authority

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets:

Cash and cash equivalents	\$ 4,068,039
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Statement of Fiduciary Net Assets:

Private Purpose Trust Fund:

Cash and cash equivalents	117,157
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Agency Fund:

Cash and cash equivalents	<u>188,586</u>
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\$ 4,373,782

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

These amounts are classified for note disclosure purposes as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 745,670
Michigan Liquid Asset Fund (MILAF) asset funds – rating of S&P AAAm	<u>3,628,112</u>
	<u>\$ 4,373,782</u>

State statutes authorize the District to invest in:

- a. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- b. Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d. Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- e. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- f. Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the listing above. The District's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$424,769 of the District's bank balance of \$624,769 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the listing above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk.

B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General Fund	Nonmajor Funds	Total	Amounts not Expected to be Collected Within One Year
Receivables:				
Accounts	\$ 76,071	\$ 2,047	\$ 78,118	\$ -
Intergovernmental	3,927,593	5,948	3,933,541	-
Durant Settlement	-	166,722	166,722	166,722
	<u>\$ 4,003,664</u>	<u>\$ 174,717</u>	<u>\$ 4,178,381</u>	<u>\$ 166,722</u>

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 1,590,511	\$ -	\$ -	\$ 1,590,511
Capital assets being depreciated:				
Building improvements	68,735,017	73,630	-	68,808,647
Vehicles	286,449	5,841	-	292,290
Furniture and equipment	796,317	37,457	-	833,774
Total capital assets being depreciated	<u>69,817,783</u>	<u>116,928</u>	<u>-</u>	<u>69,934,711</u>
Accumulated depreciation:				
Building improvements	11,444,771	1,470,557	-	12,915,328
Vehicles	198,809	9,032	-	207,841
Furniture and equipment	502,643	61,500	-	564,143
Total Accumulated Depreciation	<u>12,146,223</u>	<u>1,541,089</u>	<u>-</u>	<u>13,687,312</u>
Capital assets being depreciated, net	<u>57,671,560</u>	<u>(1,424,161)</u>	<u>-</u>	<u>56,247,399</u>
Governmental activities capital assets, net	<u>\$ 59,262,071</u>	<u>\$ (1,424,161)</u>	<u>\$ -</u>	<u>\$ 57,837,910</u>

Depreciation expense of \$1,541,089 was charged to the function "unallocated depreciation", and was not allocated to the other functions.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	Nonmajor Funds	Total
Fund Financial Statements:			
Accounts payable	\$ 481,263	\$ 96,556	\$ 577,819
Salaries and retirement payable	2,534,855	12,592	2,547,447
Due to other governments	72,242	-	72,242
State aid note payable	1,764,260	-	1,764,260
	<u>\$ 4,852,620</u>	<u>\$ 109,148</u>	<u>4,961,768</u>
District-Wide Financial Statements			
Accrued interest on long-term debt			<u>1,114,149</u>
			<u><u>\$ 6,075,917</u></u>

E. Interfund transfers

For the year ended June 30, 2008, interfund transfers consisted of \$650,000 from the General Fund to the Capital Projects Fund, and \$624,923 from the General Fund to the non-major governmental funds.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 50,031,723	\$ -	\$ 2,275,000	\$ 47,756,723	\$ 2,370,714
Unamortized loss on bond refunding	(2,596,562)	-	(112,894)	(2,483,668)	(112,894)
Unamortized bond premium	2,719,624	-	118,244	2,601,380	118,244
School bond loan fund	4,032,434	-		4,032,434	-
School loan revolving fund	743,149			743,149	-
Retirement incentives	874,532	26,236	346,610	554,158	308,988
Compensated absences	176,248	-	16,748	159,500	15,000
	<u>\$ 55,981,148</u>	<u>\$ 26,236</u>	<u>\$ 2,643,708</u>	<u>\$ 53,363,676</u>	<u>\$ 2,700,052</u>

Bonds payable at June 30, 2008, are comprised of the following issues:

General Obligation Bonds:

\$28,090,000 2000 Building and Site Bonds, due in annual installments of \$650,000 to \$725,000 through May 1, 2010; interest at 5.125% to 5.50% \$ 1,400,000

\$46,190,000 2005 Refunding Bonds, due in annual installments of \$1,090,000 to \$3,070,000 through May 1, 2030; interest at 3.50% to 5.125% 46,190,000

* \$180,390 1998 Durant School Improvement Bonds, due in annual installments of \$15,714 to \$99,235 through 2013; interest at 4.8% 166,723

Total General Obligation Bonds Payable \$ 47,756,723

* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

In 2005, the District issued \$46,190,000 of general obligation bonds to provide resources to refund \$24,225,000 of the 1998 Building and Site Bonds and \$22,790,000 of the 2000 Building and Site Bonds. The proceeds of the refunding were placed in an irrevocable trust to make future debt payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. At year end, defeased bonds outstanding consisted of \$24,225,000 of the 1998 Building and Site Bonds and \$22,790,000 of the 2000 Building and Site Bonds.

Compensated absences and retirement incentives are generally liquidated by the general fund.

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 2,370,714	\$ 2,354,052	\$ 4,724,766
2010	2,501,462	2,259,910	4,761,372
2011	2,627,246	2,134,240	4,761,486
2012	2,743,066	2,015,732	4,758,798
2013	2,964,235	1,911,674	4,875,909
2014-2018	15,295,000	7,147,190	22,442,190
2019-2023	11,425,000	3,417,440	14,842,440
2024-2028	5,640,000	1,419,714	7,059,714
2029-2033	2,190,000	168,101	2,358,101
Totals	\$ 47,756,723	\$ 22,828,053	\$ 70,584,776

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

The School Bond Loan Fund and the School Loan Revolving Fund represent amounts borrowed from the State of Michigan School loan programs to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes for the year ended June 30, 2007, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
School Bond Loan Fund			
Beginning balance	\$ 4,032,434	\$ 454,086	\$ 4,486,520
Additions	<u>-</u>	<u>201,635</u>	<u>201,635</u>
Ending balance	<u>\$ 4,032,434</u>	<u>\$ 655,721</u>	<u>\$ 4,688,155</u>
School Loan Revolving Loan			
Beginning balance	\$ 743,149	\$ 30,985	\$ 774,134
Additions	<u>-</u>	<u>35,787</u>	<u>35,787</u>
Ending balance	<u>\$ 743,149</u>	<u>\$ 66,772</u>	<u>\$ 809,921</u>

G. State Aid Anticipation Note

During the year, the District financed some of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly, are recorded as liabilities of the respective funds from which they were issued. Short-term notes outstanding as of June 30, 2008, were comprised of the following:

General Fund:

State Aid Anticipation Notes, interest at 3.78% due 8/20/08:

Beginning balance	\$ 2,047,222
Additions	1,764,260
Reductions	<u>2,047,222</u>
Ending balance	<u>\$ 1,764,260</u>

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on July 1 and are due on September 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

C. Defined benefit pension plan

Plan Description

The Tecumseh Public Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

TECUMSEH PUBLIC SCHOOLS

Notes to the Financial Statements

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Tecumseh Public Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and the Tecumseh Public Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$2,341,298, \$2,510,405 and \$2,257,370 respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Subsequent Event

On August 20, 2008, the District issued a State Aid Anticipation Note in the amount of \$1,800,000.

On August 25, 2008, the District issued energy project bonds in the amount of \$1,500,000.

* * * * *

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS

TECUMSEH PUBLIC SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

<u>ASSETS</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals</u>
Assets			
Cash and cash equivalents	\$ 248,159	\$ 242,465	\$ 490,624
Accounts receivable	2,047	-	2,047
Due from other governments	5,948	166,722	172,670
Inventory	7,669	-	7,669
	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL ASSETS</u>	<u><u>\$ 263,823</u></u>	<u><u>\$ 409,187</u></u>	<u><u>\$ 673,010</u></u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 96,556	\$ -	\$ 96,556
Salaries and retirement payable	12,592	-	12,592
Deferred revenue	2,294	166,722	169,016
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>111,442</u>	<u>166,722</u>	<u>278,164</u>
Fund balances			
Reserved for:			
Inventory	7,669	-	7,669
Unreserved, undesignated	144,712	242,465	387,177
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>152,381</u>	<u>242,465</u>	<u>394,846</u>
	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u><u>\$ 263,823</u></u>	<u><u>\$ 409,187</u></u>	<u><u>\$ 673,010</u></u>

TECUMSEH PUBLIC SCHOOLS
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Special Revenue	Debt Service	Totals
Revenue			
Local sources	\$ 880,797	\$ 4,771,652	\$ 5,652,449
State sources	39,606	-	39,606
Federal sources	206,914	-	206,914
	<hr/>	<hr/>	<hr/>
Total revenue	1,127,317	4,771,652	5,898,969
	<hr/>	<hr/>	<hr/>
Expenditures			
Current:			
Athletics	608,434	-	608,434
Food service	945,619	-	945,619
Community services	196,929	-	196,929
Debt service:			
Principal repayment	-	2,275,000	2,275,000
Interest and fiscal charges	-	2,451,641	2,451,641
	<hr/>	<hr/>	<hr/>
Total expenditures	1,750,982	4,726,641	6,477,623
	<hr/>	<hr/>	<hr/>
Revenue over (under) expenditures	(623,665)	45,011	(578,654)
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfers in	624,923	-	624,923
	<hr/>	<hr/>	<hr/>
Total other financing sources	624,923	-	624,923
	<hr/>	<hr/>	<hr/>
Change in fund balances	1,258	45,011	46,269
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	151,123	197,454	348,577
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 152,381	\$ 242,465	\$ 394,846
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

TECUMSEH PUBLIC SCHOOLS
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2008

	<u>Athletics</u>	<u>Food Service</u>	<u>Community Services</u>	<u>Total</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 7,504	\$ 235,737	\$ 4,918	\$ 248,159
Accounts receivable	21	2,026	-	2,047
Due from other governments	-	5,948	-	5,948
Inventory	-	7,669	-	7,669
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL ASSETS</u>	<u>\$ 7,525</u>	<u>\$ 251,380</u>	<u>\$ 4,918</u>	<u>\$ 263,823</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 2,093	\$ 94,463	\$ -	\$ 96,556
Salaries and retirement payable	4,675	3,503	4,414	12,592
Deferred revenue	-	2,294	-	2,294
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>6,768</u>	<u>100,260</u>	<u>4,414</u>	<u>111,442</u>
Fund balances				
Reserved for inventory	-	7,669	-	7,669
Unreserved, undesignated	757	143,451	504	144,712
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>757</u>	<u>151,120</u>	<u>504</u>	<u>152,381</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 7,525</u>	<u>\$ 251,380</u>	<u>\$ 4,918</u>	<u>\$ 263,823</u>

TECUMSEH PUBLIC SCHOOLS
Nonmajor Special Revenue Funds
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2008

	<u>Athletics</u>	<u>Food Service</u>	<u>Community Services</u>	<u>Total</u>
Revenue				
Local sources	\$ 131,991	\$ 689,841	\$ 58,965	\$ 880,797
State sources	-	39,606	-	39,606
Federal sources	-	206,914	-	206,914
	<u>131,991</u>	<u>936,361</u>	<u>58,965</u>	<u>1,127,317</u>
Total revenue				
	<u>131,991</u>	<u>936,361</u>	<u>58,965</u>	<u>1,127,317</u>
Expenditures				
Athletics	608,434	-	-	608,434
Food service	-	945,619	-	945,619
Community services	-	-	196,929	196,929
	<u>608,434</u>	<u>945,619</u>	<u>196,929</u>	<u>1,750,982</u>
Total expenditures				
	<u>608,434</u>	<u>945,619</u>	<u>196,929</u>	<u>1,750,982</u>
Revenue under expenditures	<u>(476,443)</u>	<u>(9,258)</u>	<u>(137,964)</u>	<u>(623,665)</u>
Other financing sources				
Transfers in	<u>477,200</u>	<u>9,255</u>	<u>138,468</u>	<u>624,923</u>
Total other financing sources	<u>477,200</u>	<u>9,255</u>	<u>138,468</u>	<u>624,923</u>
Change in fund balances	757	(3)	504	1,258
Fund balances, beginning of year	<u>-</u>	<u>151,123</u>	<u>-</u>	<u>151,123</u>
Fund balances, end of year	<u>\$ 757</u>	<u>\$ 151,120</u>	<u>\$ 504</u>	<u>\$ 152,381</u>

TECUMSEH PUBLIC SCHOOLS
Nonmajor Debt Service Funds
Combining Balance Sheet
June 30, 2008

	Durant Debt	2005 Debt	2000 Debt	1998 Debt	Total
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ -	\$ 144,428	\$ 98,037	\$ -	\$ 242,465
Due from other governments	166,722	-	-	-	166,722
<u>TOTAL ASSETS</u>	\$ 166,722	\$ 144,428	\$ 98,037	\$ -	\$ 409,187
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Deferred revenue	\$ 166,722	\$ -	\$ -	\$ -	\$ 166,722
Fund balances					
Unreserved, undesignated	-	144,428	98,037	-	242,465
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 166,722	\$ 144,428	\$ 98,037	\$ -	\$ 409,187

TECUMSEH PUBLIC SCHOOLS
Nonmajor Debt Service Funds
Combining Statement of Revenue, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2008

	<u>Durant Debt</u>	<u>2005 Debt</u>	<u>2000 Debt</u>	<u>1998 Debt</u>	<u>Total</u>
Revenue					
Local sources:					
Property taxes	\$ -	\$ 2,295,531	\$ 802,350	\$ 1,583,340	\$ 4,681,221
Interest revenue	-	31,095	18,449	40,887	90,431
	<u>-</u>	<u>2,326,626</u>	<u>820,799</u>	<u>1,624,227</u>	<u>4,771,652</u>
Expenditures					
Debt Service:					
Principal	-	-	650,000	1,625,000	2,275,000
Interest	-	2,277,444	103,992	70,205	2,451,641
	<u>-</u>	<u>2,277,444</u>	<u>753,992</u>	<u>1,695,205</u>	<u>4,726,641</u>
Total expenditures	-	2,277,444	753,992	1,695,205	4,726,641
Change in fund balances	-	49,182	66,807	(70,978)	45,011
Fund balances, beginning of year	-	95,246	31,230	70,978	197,454
Fund balances, end of year	<u>\$ -</u>	<u>\$ 144,428</u>	<u>\$ 98,037</u>	<u>\$ -</u>	<u>\$ 242,465</u>



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

November 12, 2008

Board of Education
Tecumseh Public Schools
Tecumseh, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **TECUMSEH PUBLIC SCHOOLS**, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tecumseh Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Finding 2008-1 Audit Adjustments

Criteria: The District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Significant adjustments were necessary to agree key accounts to their proper underlying balances in the general and food service funds.

Cause: Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year.

Effect: As a result of this condition, several balance sheet accounts had to be adjusted to underlying details during the audit process.

Recommendation:

On a monthly basis, the District Finance office should ensure that all balance sheet accounts agree with underlying details, and make adjustments to the accounts each month rather than the end of the year.

View of Responsible

Officials: The Finance Office will take action to adjust general ledger accounts, including balance sheet accounts, on a monthly basis in the fiscal year 2008-2009.

Finding 2008-2 Preparation of Financial Statements in Accordance with GAAP

Criteria: All school districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting)

Condition: As is the case with many smaller and medium-sized entities, the district has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the District's internal controls.

Cause: Due to the lack of knowledge and expertise relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to outsource the preparation of its annual financial

statements to the auditors rather than to incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of
Responsible**

Officials: The District has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the district to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not consider the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tecumseh Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

We noted certain matters that we reported to the management of Tecumseh Public Schools in a separate letter dated November 12, 2008.

Tecumseh Public Schools' responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit these responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, others in the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.





REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE
UNDER SAS NO. 114**

November 12, 2008

To the Board of Education of
Tecumseh Public Schools

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *Tecumseh Public Schools* (the “District”) for the year ended June 30, 2008, and have issued our report thereon dated November 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated November 12, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the *District*. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of *District's* compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 11, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the *District* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Adjustments included recording accrued interest on the state aid note, food service inventory, and other corrections to balance sheet accounts.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the *Tecumseh Public Schools* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

Tecumseh Public Schools

Comments and Recommendations

For the Year Ended June 30, 2008

In planning and performing our audit of the financial statements of the Tecumseh Public Schools (the "District") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the *Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

Other Matters

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Tecumseh Public Schools

Comments and Recommendations (Continued)

For the Year Ended June 30, 2008

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the District's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the District's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

The following areas were noted for improvement during the current year's audit:

Payroll. Currently, there is no formal review of the payroll register by someone other than the payroll clerk before payroll checks are issued. We recommend that the reviewer of the payroll register initial and date the register of each current pay before payroll is finalized in order to enhance the internal controls in this area.

Inventory of Capital Assets. The District currently has no policy for taking inventory of the District's moveable capital assets. We recommend that the District consider establishing such a policy, and suggest an inventory of those assets be taken every four or five years

Check Disbursements. Check signing should be independent from initiating purchases, approving purchases, receiving, shipping, preparer of checks, cash receipts, accounts payable, and cash bookkeeping. Through our audit procedures it was determined that the individual responsible for signing checks also has accounts payable duties while having access to the general ledger systems. In order to enhance the internal controls in this area, we recommend that the Business Manager review the accounts payable check registers for reasonableness and content before the accounts payable checks are issued. The Business Manager should initial and date the register to document that this review procedure has been performed.

Documentation. During our audit procedures it was noted that while the District does have proper segregation of duties in many areas, there was no evidence documenting who prepared certain documents and who reviewed them. To help ensure proper segregation of duties there should be evidence of a preparer and reviewer of any work papers or reconciliations completed.

Tecumseh Public Schools

Comments and Recommendations (Concluded)

For the Year Ended June 30, 2008

Employee Dishonesty Bonds. Presently, the District is covered by an employee dishonesty bond in the amount of \$50,000 per occurrence. Because of the increased financial activity of the District over the past several years, we recommend that the District consider increasing this coverage as additional protection against a defalcation. We note that other districts of similar size maintain coverage of \$100,000, \$200,000, or more.

* * * * *